

# Independency Of Qualitative Audit Regarding The Audit Firm Size

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## Abstract

During the late 1970's, regulators and small audit firms believed that the size of the audit firm did not affect audit quality. There is some criticism that the large accounting firms should not be arbitrarily distinguished from all the other Certified Public Accountants firms. De Angelo (1981) argues that consumers can use size as a measure of audit quality. This paper reports interview evidence on audit materiality and the answers to the variables regarding the size of the companies which is audited and the size of auditing company. Significant findings from the research interviews are Focus-Groups Questionnaires as a Method of Collecting Qualitative Data, in our case the group being the 215 Certified Public Accountants from Authorized Accountant Experts Institute, Albania. We want to bring out the Albanian auditor characteristic in assessing the qualitative audit, that is not depent on the size of the company who is audited or on the size of the auditing company. The result of the study can have significant implication for Authorized Accountant Experts Institute and the Quality Audit Control, which takes place once every five years for the experts on the field and for the young experts, it takes place once every two years.

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**Keywords:** Audit quality; Risks; Professional judgment; Size Firms

## Introduction

During the late 1970's, regulators and small audit firms believed that the size of the audit firm did not affect audit quality. There is some criticism that the large accounting firms should not be arbitrarily distinguished from all the other CPA(Certified Public Accountants) firms. De Angelo(1981) argues that consumers can use size as a measure of audit quality. De Angelo defines quality of audit services as “the market-assessed joint probability that the given auditor will both discover a breach in the client's accounting system and report the breach.”

Although applying audit materiality is important in both planning and audit processes, we believed that problem is not related to the level of materiality used to plan the scope of audits. The problem comes with the application of appropriate audit judgment to the evaluation of the significance of detected misstatements.

Gray, Owen and Maunders (1991) add that professional judgement is made throughout the audit:

It begins when the [audit] firm decides to accept an appointment as auditors; and continues through the analytical review, the assessment of audit risk, the determination of levels of materiality, the areas of the company's activities on which to concentrate, the size of samples, the form of evidence to be sought, the decision to accept or not the directors' choice of accounting treatment and disclosure and culminates in the conclusions of whether or not the financial statements do show a true and fair view and whether or not to sign off a clean audit report.

Iskandar (Iskandar, T. M. 1996) states that while many professional judgements are made during the audit, the decision on 'audit materiality' is the most fundamental.

It is known about actual differences which may exist between Big 4 and non-Big 4 firms' audit processes and procedures. They argue that Big 4 and non-Big 4 audit firms fundamentally differ with respect to their investment strategies in audit technology (Sirois, L.-P., and D. A. Simunic. 2010), with Big 4 audit firms choosing to invest more in audit technology as a differentiation strategy to enhance the relative value of their audits through greater audit quality, real and/or perceived, and/or audit production efficiency gains.

However it does not show that the work of single CPA is below that of the Big, and this has been seen these last years. Financial scandals, such as Enron, WorldCom, Tyco-International, and their auditors; for example: Arthur Andersen, clearly show that big audit companies led these scandals into becoming unavoidable.

In Albania, the number of companies audited is not great. Also what characterizes our small country is that the larger the companies are, they are audited by the big audit's company, while the small auditors audit only small companies. This leads to smaller auditors' experience and familiarity with branches of the economy where they perform audits have enough impact.

### **Research hypotheses, data and methodology**

Our study was structured upon Focus-Groups Questionnaires as a Method of Collecting Qualitative Data(Yin, R. 2011) , in our case the group being the 215 albanian CPA and having responded 132 CPA .

We have designed questionnaires regarding audit judgment based on materiality; risk assessment (professional judgment) or experience (personal judgment) they have as auditors; the years passed as auditors in a society are described as experience in auditing and size of company .

The wording of this hypothesis leads to the determination of the cause, which is the size of the company being audited, and of the effect, which is the basis of the materiality's computation.

Use of the common software previously mentioned can help at this stage (Yin, R. 2011).

## Results and discussion

Multinomial execution of logistic regression through SPSS software follows a slightly different procedure from the execution of ordinary logistic regression, resulting in the reported statistics to be slightly different.

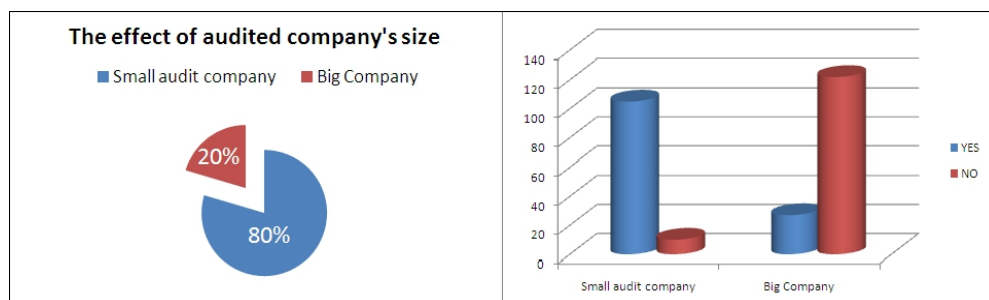


Figure 1 and 2. The effect of the size

The size of the audited company certainty 95% is an important variable to calculate the materiality because its probability is 0.038. A positive sign of the coefficient indicates that when the company being audited is great (big), then the chances increase that the accounting expert use *Calculation* as a mean of calculating the materiality rather than *Both* ways. When big variable varies from 0 to 1, the relative risk of choosing the method of calculation changes with 3.676 against *both* ways. So, in both cases this variable is important for determining materiality calculation.

## Parameter Estimates

Table 1. Overview of the results of the base materiality calculation's model, product of SPSS 20

<i>llog_matr<sup>a</sup></i>	B	Std. Error	Wald	df	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
							Lower Bound	Upper Bound
<i>Experience</i>	<i>Intercept</i>	-9.523	2.767	11.846	1	.001		
	<i>pj_aud</i>	2.319	.789	8.636	1	.003	2.165	47.726
	<i>Age</i>	.032	.035	.825	1	.364	.964	1.106
	<i>Size</i>	1.527	.865	3.116	1	.078	.845	25.076
	<i>Gener</i>	5.108	2.480	4.243	1	.039	1.281	21322.477
	<i>gener * pj_aud</i>	-1.859	.906	4.214	1	.040	.026	.919
<i>Calculation</i>	<i>Intercept</i>	-2.087	1.380	2.286	1	.131		
	<i>pj_aud</i>	.620	.390	2.534	1	.111	.866	3.993
	<i>Age</i>	-.015	.029	.262	1	.609	.930	1.044
	<i>Size</i>	1.302	.629	4.283	1	.038	1.071	12.616
	<i>Gener</i>	3.039	1.159	6.876	1	.009	2.155	202.537
	<i>gener * pj_aud</i>	-1.506	.544	7.663	1	.006	.076	.644

a. The reference category is: *both*.**Conclusion**

According to our questionnaire, the answer is that which we were afraid of the small auditors rely on the experience in the areas of economy to determine materiality. It is not negative, but the experience should be added, as well as accounting procedures and tests.

This connection is obvious, especially in CPA who work in audit firms, who by experience of these firms (Big), who use a strict protocol with regard to audit planning and the procedures for calculation of risk and materiality, make a new mentality even for the Albanian CPA, it should serve not only in IEKA's training but even in the necessity of drafting of a working file model - since most auditors are individuals - and it will help the work of every CPA to be subjected to a strict protocol according to this model file, and will increase the effectiveness of the auditor's work, giving a priority to the Calculations and Tests against Experience.

Also one thing that is noticed is that the women CPAs are a little more careful than men CPAs because they do a rotation, like experience and tests. This leads IEKA to reflect in quality control to be given a bigger place to the control at the men CPA.

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